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**FEDERAL NATIONAL
MORTGAGE ASSOCIATION**

**HOUSING AND HOME
FINANCE AGENCY**



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*Information Circular Regarding the
Activities of the Association*

January 15, 1962

This Information Circular does not purport to set forth all of the procedures and requirements that apply to the purchase, servicing, and sale of mortgages by FNMA. All such transactions are governed by the specific terms and provisions of contracts entered into by the parties. Further information relative to all of these matters may be obtained from the FNMA Agency Offices listed below:

<u>Location of Offices</u>	<u>Areas Served</u>
Atlanta 3, Georgia 34 Peachtree Street, N. E.	Alabama, Florida, Georgia Kentucky, Mississippi, North Carolina, South Carolina, Tennessee.
Chicago 3, Illinois 1120 Commonwealth- Edison Building 72 West Adams Street	Illinois, Indiana, Iowa, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin.
Dallas 1, Texas Dallas Federal Savings Building 1505 Elm Street	Arkansas, Colorado, Kansas, Louisiana, Missouri, New Mexico, Oklahoma, Texas.
Los Angeles 5, California 3540 Wilshire Boulevard	Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming.
Philadelphia 7, Pennsylvania 211 South Broad Street	Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands, Virginia, West Virginia.

Sales Office

149 Broadway, Room 2310, New York 6, N. Y.

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Organization and Scope of Operations

§1600.1 General.

The Federal National Mortgage Association (called "FNMA" or "the corporation") purchases and sells mortgages (including home improvement loans) and makes short-term loans on the security of mortgages. All such mortgages are ordinarily Government-insured or guaranteed (FHA or VA). A mortgage may not be purchased at a rate in excess of par, nor in the usual instance if it is offered by, or covers property held by, a Federal, State, territorial, or municipal instrumentality. FNMA itself is a corporation that had its inception in 1938. In 1954 FNMA was rechartered by the Congress as a mixed-ownership corporation. All of the common stock of the corporation is owned by private shareholders, and the preferred stock is owned by the Federal Government (Secretary of the Treasury). The charter contemplates that in due course the preferred stock will be retired and the Secondary Market Operations (hereinafter described) will qualify to become privately owned and managed. The corporation is required to pay a full Federal income tax equivalent on the earnings of its Secondary Market Operations. Under its charter, known as the Federal National Mortgage Association Charter Act, 12 U.S.C. 1716 et seq., the corporation has established and maintained, dating from November 1, 1954, three independent portfolios of FNMA-owned mortgages, with separate accountability. These three portfolios result from three separate operations predicated on different purposes and objectives. FNMA is authorized to conduct:

(a) **Secondary Market Operations**, basically a privately financed activity, to provide supplementary assistance to the secondary market for home mortgages by providing a degree of liquidity for mortgage investments, thereby improving the distribution of investment capital available for home mortgage financing (described further in §§1600.11 to 1600.15);

(b) **Special Assistance Functions**, operated exclusively for the account of the Government, which, upon specific authorization by the President of the United States, or by the Congress, provide special assistance for financing selected types of home mortgages that qualify under special programs; the charter also makes provisions for special assistance through the purchase of home mortgages generally as a means of retarding or stopping a decline in mortgage lending and home building activities which threatens materially the stability of a high level national economy (described further in §§1600.21 to 1600.25); and

(c) **Management and Liquidating Functions**, under which FNMA manages and liquidates for the account of the Government the remaining portfolio of mort-

gages acquired pursuant to contracts entered into between February 10, 1938, and November 1, 1954, and certain other mortgages that have been or may be acquired from authorized sources, in an orderly manner, with a minimum of adverse effect upon the home mortgage market and minimum loss to the Federal Government (described further in §§1600.31 and 1600.32).

§1600.2 Area of operations.

FNMA is authorized to conduct its business in any State of the United States, including the District of Columbia, the Commonwealth of Puerto Rico, and the territories and possessions of the United States. FNMA functions through its principal office located at 811 Vermont Avenue, N.W., Washington 25, D. C., and through the offices of its Agencies listed herein. All inquiries concerning offerings of mortgages to FNMA should be directed to the office of the Agency serving the territory in which the mortgaged property is located. Inquiries concerning short-term loans should be made to the Agency serving the area in which the principal office of the prospective borrower is located.

Secondary Market Operations

§1600.11 General.

In accomplishing the purposes of the Secondary Market Operations, FNMA purchases mortgages in areas where market funds are needed, holds such mortgages available for sale to private investors, and makes short-term loans on the security of mortgages. Certain fees and charges are imposed under these operations with the objective that they will reasonably prevent excessive use of FNMA's facilities and that the conduct of the operations will be within the income derived therefrom and will be fully self-supporting. The users of FNMA's Secondary Market Operations are required to subscribe for FNMA common stock as stated in §1600.15(a).

§1600.12 Mortgage purchases.

Mortgage purchases are confined, insofar as practicable, to mortgages which are of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors. FNMA is not authorized to purchase participations under its Secondary Market Operations. Purchases are made by FNMA under the terms of specific contracts, and in accordance with certain conditions and requirements stated therein.

(a) **Immediate Purchase Contract.** A Seller may offer a mortgage to FNMA for immediate purchase by executing an Immediate Purchase Contract and delivering therewith required documents and forms. With each offer, the Seller must agree to subscribe for common stock in FNMA (as stated in §1600.15(a)) and to pay a Purchase and Marketing Fee.

(b) **Repurchase option.** With respect to Immediate Purchase Contract transactions, the Seller may obtain an Option Contract which will permit the Seller to repurchase, at Seller's election, the mortgages sold to FNMA, at a stated repurchase price rate or rates which may be the same as paid by FNMA. The Option Contract is issued for a stated period after the date of purchase of the mortgages by FNMA, upon payment by the Seller of an Option Fee.

(c) **Standby Commitment Contract.** A Seller may offer mortgages for future purchase by FNMA by executing a Standby Commitment Contract which, when accepted, obligates FNMA to purchase any or all mortgages specified in the contract that the Seller elects to deliver within the commitment period. With each such offer the Seller must pay a Commitment Fee which is nonrefundable if the contract is accepted by FNMA. The Seller is required to subscribe for common stock in FNMA as stated in §1600.15(a). A part of the stock must be paid for at the time of the offer; the remainder must be paid for if and when the mortgage purchase is effected under the contract. A Seller is not required to pay a Purchase and Marketing Fee on mortgages purchased under a Standby Commitment Contract.

(d) **Eligible mortgages.** The insurance or guaranty of each mortgage purchased under FNMA's Secondary Market Operations must be pursuant to a section, as specified by FNMA, of the National Housing Act or of the Servicemen's Readjustment Act of 1944 or chapter 37 of title 38, United States Code. If required by FNMA, each such mortgage offered under an Immediate Purchase Contract must have been insured or guaranteed within such period as may be prescribed.

(e) **Special acceptability requirements.** On the date of the offer of a mortgage to FNMA, (1) subject to some exceptions, the unpaid principal balance may not be less than \$5,000 and the unexpired term may not be less than 10 years, and (2) the rate of interest must be currently acceptable to FNMA. In addition, the mortgage must meet general acceptability requirements, as indicated in §§1600.41 to 1600.53.

§1600.13 Purchase price.

(a) **Immediate Purchase Contracts.** The price to be paid under an Immediate Purchase Contract for a mortgage purchased by FNMA in its Secondary Market Operations is established within the range of market prices for the particular class of mortgages involved, as determined by FNMA. The price paid by FNMA for a mortgage may vary according to its interest rate, the location of the mortgaged property, the relative equity of the mortgagor, the term of the loan, and other factors. Information as to current prices at which FNMA purchases mortgages may be obtained by application to the FNMA Agency serving the area in which the mortgaged property is located. All prices quoted by FNMA are subject to change without notice. A quotation of prices is not to be considered as an offer by FNMA; it is solely an invitation to the Seller to make an offer

to FNMA. FNMA is under no obligation to purchase any mortgage until the Seller has submitted, and FNMA has executed and delivered, a specific contract covering such purchase.

(b) **Standby Commitment Contracts.** FNMA issues Standby Commitment Contracts at prices which are sufficient to facilitate home financing, but which are sufficiently below the price then offered by the corporation for immediate purchase to prevent excessive sales to the corporation pursuant to such commitments.

§1600.14 Loans on mortgages.

FNMA, under its Secondary Market Operations, may make bank-type short-term loans which are secured by FHA-insured or VA-guaranteed mortgages. Loans may not have a term in excess of 12 months; consideration will be given to requests for extensions not in excess of 12 months. The volume of lending activities and the establishment of loan ratios, interest rates, maturities, and charges or fees are determined by FNMA from time to time with the objective of preventing excessive use of the facilities and of assuring that the Secondary Market Operations will remain fully self-supporting.

§1600.15 Financing of Secondary Market Operations.

Funds for the conduct of FNMA's Secondary Market Operations are obtained from subscriptions for FNMA capital stock, borrowings, and net proceeds from such operations.

(a) **Capital stock.** The corporation issues non-voting common and preferred stock (par value \$100 per share); the common stock is issued to lenders and other institutions that sell mortgages to, or that borrow funds from, FNMA in the Secondary Market Operations; the preferred stock, in its entirety, is held by the Secretary of the Treasury. The users of the Secondary Market Operations are required to subscribe for common stock in amounts determined by FNMA as prescribed by law. With respect to such subscriptions, the corporation issues to each subscriber shares of common stock (only in denominations of \$100, or multiples thereof). The amount of any subscription that cannot be evidenced by a whole share of common stock may not be withdrawn by the subscriber, but the subscriber will be permitted to supplement any such amount by payment of an additional sum sufficient to pay for a full share. FNMA imposes no restrictions as to who may be the holder of such shares of common stock; however, the shares are transferable only on the books of the corporation. (Under the FNMA Charter Act any institution, including a National Bank or State member bank of the Federal Reserve System, or any member of the Federal Deposit Insurance Corporation, trust company, or other banking organization, organized under any law of the United States, including the laws relating to the District of Columbia, is authorized to subscribe to FNMA's common stock under conditions described in this paragraph and to receive, hold or dispose of such stock.)

(b) **Borrowings.** FNMA may issue, and have outstanding at any one time, obligations in an aggregate amount not exceeding ten times the sum of its capital and surplus, and not in excess of its ownership under its Secondary Market Operations, free from any liens or encumbrances, of cash, mortgages, short-term notes secured by mortgages, and other holdings of securities in which the corporation is authorized to invest. Although the issuance of such obligations is subject to the prior approval of the Secretary of the Treasury, the obligations themselves are not guaranteed by the United States and do not constitute a debt or obligation of the United States. FNMA's obligations are available from time to time for sale to private investors. The Secretary of the Treasury may, within certain limitations, purchase these obligations of FNMA's Secondary Market Operations until such time as all of the preferred stock of FNMA held by the Secretary of the Treasury has been retired.

Special Assistance Functions

§1600.21 General.

To carry out the purposes of the Special Assistance Functions, FNMA makes commitments to purchase and purchases mortgages for such periods of time and to such extent as the President of the United States has determined to be in the public interest, and as otherwise authorized by law. The operations under the Special Assistance Functions are confined, so far as practicable, to mortgages which are deemed by FNMA to be of such quality as to meet, substantially and generally, the purchase standards imposed by private institutional mortgage investors but which, at the time the mortgages are offered to FNMA for purchase, are not necessarily readily acceptable to such investors. When and as authorized by the President of the United States or by the Congress, FNMA will announce the inauguration of Special Assistance Programs specifying the types of mortgages that will be purchased, the prices to be paid therefor, and any special acceptability requirements relating to such Programs. Purchases may be made under Immediate Purchase Contracts or Commitment Contracts, as announced in the Special Assistance Programs. Consideration will be given to Sellers' requests for the purchase of participations in mortgages by FNMA.

§1600.22 Original mortgagee.

Under the Special Assistance Functions, the Seller must be the original mortgagee, and must not have made any prior sale of the mortgage offered to FNMA.

§1600.23 Mortgage interest rate.

Each mortgage must bear interest at the highest rate permitted by FHA or VA rules and regulations for that type of mortgage at the time of issuance of the FHA insurance commitment or the VA Certificate of Reasonable Value.

§1600.24 Fees or charges.

Fees or charges for FNMA's services under the Special Assistance Functions are established with the objective that all costs and expenses of its operations thereunder will be within its income derived from such operations and that such operations will be fully self-supporting. In connection with the purchase of a mortgage by FNMA under these functions, unless otherwise specified in the Special Assistance Program, the Seller is required to pay a Purchase and Marketing Fee. As to commitments to purchase a mortgage in the future, a Commitment Fee is charged.

§1600.25 Financing of Special Assistance Functions.

Mortgage Sellers are not required to purchase common stock of FNMA in connection with purchases or contracts for purchases under these Special Assistance Functions, nor is there any recourse to the capitalization of FNMA with respect to such functions. Funds required for the operation of these functions are obtained principally through borrowings from the Secretary of the Treasury. All of the benefits and burdens incident to the administration of the Special Assistance Functions inure solely to the Secretary of the Treasury.

Management and Liquidating Functions

§1600.31 General.

The Federal National Mortgage Association Charter Act authorizes FNMA to manage and liquidate its portfolio of mortgages acquired pursuant to contracts entered into prior to November 1, 1954, and those other mortgages that have been or may be acquired from authorized sources, in an orderly manner, with a minimum of adverse effect upon the home mortgage market and minimum loss to the Federal Government.

§1600.32 Financing of Management and Liquidating Functions.

Funds required for the Management and Liquidating Functions are obtained through borrowings from the Secretary of the Treasury, and from time to time through the sale to private investors of FNMA's obligations issued under its Management and Liquidating Functions. The aggregate amount of such separate obligations issued to private investors, the proceeds of which are paid to the Secretary of the Treasury in reduction of the corporation's indebtedness under the Management and Liquidating Functions, may not exceed FNMA's ownership under such functions, free from any liens or encumbrances, of cash, mortgages, and other holdings of securities in which the corporation is authorized to invest. Such separate obligations are not guaranteed by the United States and do not constitute a debt or obligation of the United States.

With respect to the Management and Liquidating Functions, there is no recourse to the capitalization of FNMA. All of the benefits and burdens incident to the administration of the Management and Liquidating Functions inure solely to the Secretary of the Treasury.

General Acceptability Requirements for Mortgages

§1600.41 General requirements.

As a condition precedent to the offering of a mortgage to FNMA for purchase, a designated Seller must have executed a Selling Agreement. Any mortgage offered or submitted to FNMA under the Secondary Market Operations or Special Assistance Functions must meet the conditions contained in such Agreement. The mortgage must also conform to special acceptability requirements prescribed by FNMA, and to general acceptability requirements, as indicated in §§1600.42 to 1600.53.

§1600.42 Ownership.

On the date of the Seller's offer to enter into an Immediate Purchase Contract with FNMA, the Seller must be the owner of the mortgage, and the mortgage must have been insured by FHA or guaranteed by VA.

§1600.43 Offering period.

(a) **Immediate Purchase Contract.** An offer of a mortgage under an Immediate Purchase Contract must be delivered subsequent to the date which precedes by one month the due date of the first installment of principal and interest and within such time as FNMA may require following the date of the FHA final insurance endorsement or the VA Loan Guaranty Certificate.

(b) **Standby Commitment Contract or Commitment Contract.** An offer of a Standby Commitment Contract or a Commitment Contract covering a home mortgage must be delivered subsequent to the issuance of the FHA insurance commitment or the VA Certificate of Reasonable Value and prior to the date of the FHA final insurance endorsement or the date of the VA Loan Guaranty Certificate. An offer of a Standby Commitment Contract or a Commitment Contract covering a multifamily housing mortgage must be delivered subsequent to the issuance of the FHA insurance commitment or the VA Certificate of Reasonable Value and prior to the commencement of construction.

§1600.44 Maximum mortgage.

Under the Secondary Market Operations the principal obligation must not exceed \$20,000 for each family residence or dwelling unit covered by the mortgage. Under the Special Assistance Func-

tions the original principal obligation of a mortgage must not exceed, or have exceeded, \$17,500 for each family residence or dwelling unit covered by the mortgage. Such limitations do not apply to mortgages covering properties located in Alaska, Guam, or Hawaii, or to any mortgage insured by FHA under Section 213 and covering property located in an urban renewal area, or under Section 220, or under title VIII of the National Housing Act.

§1600.45 VA mortgages, extent of guaranty and other matters.

The extent of the VA guaranty must, in all cases, meet current FNMA requirements; and in cases in which there is more than one mortgagor, (a) all of the mortgagors must be jointly and severally liable on the mortgage indebtedness, (b) the original amount of the loan must not have exceeded \$50,000, and (c) the number of living units must not exceed four.

§1600.46 Maturity.

The mortgage must mature within the period prescribed by law or the applicable FHA or VA regulations.

§1600.47 Advances by Seller.

On the date of submission to FNMA, the mortgage must be current with respect to matured installments of principal, interest, and deposits. Interest accruing to the date which precedes by one month the due date of the first installment of principal and interest shall have been paid by or for the account of the mortgagor. The Seller, within the immediately preceding 3 months, must not have advanced funds, nor have induced or solicited any advance of funds by another, directly or indirectly, for the payment of any amount required by the note or mortgage, except for interest accruing from the date of the note or the date of disbursement of the loan proceeds, whichever is later, to the day which precedes by one month the due date of the first full installment of principal and interest.

§1600.48 Credit.

There should not be any circumstances of, or conditions affecting, the mortgagor, the present owner, or their affairs, that would cause the mortgage to become delinquent.

§1600.49 Property.

There should not be any circumstances of, or conditions affecting, the mortgaged premises, that adversely affects the value or marketability of the mortgage, or that would cause private investors to regard the mortgage as unacceptable for prudent investment.

§1600.50 Occupancy.

Subject to specific contractual treatment otherwise, the property covered by a home mortgage must be occupied at the time the mortgage is submitted to FNMA for purchase, and the property covered by a multifamily housing mortgage must, at the time the mortgage is submitted to FNMA for purchase, be occupied to the extent that the income therefrom will cover all property expenses, carrying charges, and payments required by the mortgage.

§1600.51 Mortgage lien.

Except in the case of certain home improvement loans, the mortgage must be a first and paramount lien on the real property, and on the personal property if any is required to be covered, subject only to liens for taxes not due and payable, acceptable special assessments not in arrears, and conditions, restrictions and encumbrances not deemed by FNMA to be material.

§1600.52 Title evidence.

The title evidence to be delivered by the Seller must meet the requirements of the National Housing Act or the Servicemen's Readjustment Act of 1944 or chapter 37 of title 38, United States Code, as the case may be, and the applicable rules and regulations promulgated pursuant thereto. The title evidence must also be in such form and substance as to meet FNMA's title evidence requirements.

§1600.53 Hazard insurance.

Property securing each mortgage must be covered by hazard insurance that meets all of the hazard insurance requirements of FNMA including FNMA's specifications as to kinds and amounts of hazard insurance.

Eligible Sellers

§1600.61 General.

Designation of an eligible Seller to sell mortgages to FNMA under its Secondary Market Operations and Special Assistance Functions is consummated by the execution of a Selling Agreement. The Selling Agreement, consistent with §1600.71, requires the Seller, with respect to each mortgage offered or submitted for purchase, either to be qualified as a FNMA Servicer by the execution of a Servicing Agreement and agree to service, or to proffer facilities satisfactory to FNMA for servicing the mortgage. Sellers are not required to furnish servicing facilities in connection with the purchase by FNMA of multifamily housing mortgages.

§1600.62 VA-guaranteed mortgages.

In order to be eligible to sell a VA-guaranteed mortgage to FNMA, a Seller must be acceptable to FNMA and also must come within one of the following three classifications:

(a) any lender that is classified by VA as a supervised lender under Section 500(d) of the Servicemen's Readjustment Act or Chapter 37, title 38, United States Code, as applicable, including any National bank, State bank, private bank, building and loan association, insurance company, credit union, or mortgage and loan company, that is subject to examination and supervision by an agency of the United States, or of any State, including the District of Columbia.

(b) any lender that is an FHA-approved mortgagee, as defined in §1600.63; or

(c) any other lender, if such lender has a net worth of not less than \$100,000 in assets acceptable to FNMA. This net worth must be maintained at all times.

§1600.63 FHA-insured mortgages.

In order to be eligible to sell an FHA-insured mortgage to FNMA, a Seller must be acceptable to FNMA, and must be an FHA approved mortgagee, which term does not include a mortgagee that has been approved on the basis of being a duly authorized loan correspondent of an approved mortgagee that has qualified with FHA to originate loans under the National Housing Act.

Mortgage Servicing

§1600.71 Servicing requirements.

A Seller may not service a mortgage purchased by FNMA under its Secondary Market Operations or Special Assistance Functions unless it has qualified as an eligible Servicer and has executed a Servicing Agreement. With respect to each mortgage that is offered by the Seller to FNMA for purchase, either the Seller must be a Servicer having an outstanding Servicing Agreement with FNMA and shall consent to service the mortgage, or the Seller shall represent that when the mortgage is submitted to FNMA for purchase it will proffer the facilities of a Servicer having an outstanding Servicing Agreement with FNMA that will consent to service the mortgage. The Seller must also represent that, in either instance, there is an office with servicing facilities satisfactory to FNMA located within 100 miles of the mortgaged property. When the mortgage is submitted to FNMA for purchase, the Servicer (whether the Seller, or another Servicer that the Seller has previously ascertained is satisfactory to FNMA) must have consented to service the mortgage, and must have executed documentary evidence of such consent. This requirement does not apply to multifamily housing mortgages.

§1600.72 Servicer's compensation.

As compensation for the performance of its servicing duties, a Servicer may retain from each full monthly installment collected by it an amount equal to one-half of 1 percent per annum computed on the same principal amount and for the same period as the interest portion of said installment, and may also retain the late charges, if any, paid by the mortgagor. However, no compensation will be due the Servicer with respect to any period either prior to the date of commencement of its servicing duties or subsequent to the date of termination of its servicing duties.

Mortgage Sales

§1600.81 Eligible purchasers.

Any investor that is an FHA-approved mortgagee is eligible to purchase FHA-insured mortgages, and any investor that in the opinion of FNMA has satisfactory facilities to service mortgages is eligible to purchase VA-guaranteed mortgages.

§1600.82 Mortgages for sale and prices.

Lists of mortgages owned by FNMA and available for sale, together with the current sale prices, may be obtained by prospective purchasers upon application to the FNMA Agency Office serving the area in which the investor desires to purchase mortgages.

§1600.83 Reservations.

Except for multifamily housing mortgages, FNMA does not issue firm options; instead, available mortgages may be reserved for a prospective purchaser and will not be available for sale to any other investor for a period of 15 calendar days. During such period, mortgaged properties may be inspected and the mortgage documents examined in FNMA's Agency Office.

§1600.84 Consummating sales.

FNMA will endeavor to comply with the wishes of purchasers with respect to arranging closing schedules and other matters incident to consummating sales. Unusual expenses that may be incurred by FNMA at the request of the purchaser, in connection with the transfer of mortgages, must be assumed by the purchaser. All sales of mortgages by FNMA shall be made pursuant to the terms and conditions of a form of contract furnished by FNMA, to be executed by the purchaser and FNMA. Since existing servicing arrangements, that are transferable with the mortgages as may be provided in the sales contract, are cancellable on 30 days' notice to the Servicer, at the option of the owner of the mortgages, purchasers will always be able to effect their own arrangements for future servicing.

Exceptions

§1600.91 Exceptions.

In the conduct of its affairs, in individual cases or classes of cases, FNMA reserves the right, consistent with law, to alter or waive any of the requirements contained in this Information Circular, or to impose other and additional requirements; it further reserves the right to amend or rescind any or all of the material set forth herein.